

ST KITTS-NEVIS SOCIAL SECURITY BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

PKF

Chartered Accountants &
business advisers

ST KITTS-NEVIS SOCIAL SECURITY BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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& business advisers

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF ST KITTS-NEVIS SOCIAL SECURITY BOARD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of St Kitts-Nevis Social Security Board, which comprise the statement of financial position as at 31 December 2018, and the income and expenditure account, statements of other comprehensive income, changes in reserve funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Board in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF ST KITTS-NEVIS SOCIAL SECURITY BOARD

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PKF

Chartered Accountants:

BASSETERRE - ST KITTS
10 July 2020

PKF

ST KITTS-NEVIS SOCIAL SECURITY BOARDSTATEMENT OF FINANCIAL POSITIONAT 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

FUNDS EMPLOYED	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Social Security Fund			
- Long Term Benefits Fund		1,179,099,646	1,088,901,284
- Short Term Benefits Fund		153,592,578	131,054,908
- Employment Injury Benefits Fund		251,243,025	231,865,016
National Provident Fund			
- Members' Account	3	3,692,936	3,647,942
- Reserve Fund	4	27,207,268	26,472,729
Revaluation Reserve	5	<u>12,335,039</u>	<u>30,061,652</u>
RESERVE FUNDS (Page 6)		1,627,170,492	1,512,003,531
STAFF SUPPLEMENTAL BENEFITS RESERVE FUND	6	<u>10,370,567</u>	<u>10,429,255</u>
TOTAL FUNDS		<u>\$1,637,541,059</u>	<u>\$1,522,432,786</u>
REPRESENTED BY:			
NON-CURRENT ASSETS			
Property, Plant and Equipment (Schedule III - Page 11)	7	15,031,525	15,928,599
Intangible Assets	8	168,021	270,662
Investment Properties	9	163,149,983	137,323,304
Other Investments	9	<u>1,374,305,164</u>	<u>1,302,863,898</u>
TOTAL NON-CURRENT ASSETS		<u>1,552,654,693</u>	<u>1,456,386,463</u>
CURRENT ASSETS			
Cash at Bank and in Hand	10	15,851,582	23,644,044
Accrued Interest Receivable	11	24,352,368	21,426,855
Accounts Receivable and Prepayments	12	<u>51,906,205</u>	<u>28,597,286</u>
TOTAL CURRENT ASSETS		<u>92,110,155</u>	<u>73,668,185</u>
<u>LESS:</u> CURRENT LIABILITIES			
Accounts Payable		1,121,391	864,359
Sundry Creditors and Accruals	15	<u>6,102,398</u>	<u>6,757,503</u>
		<u>7,223,789</u>	<u>7,621,862</u>
NET CURRENT ASSETS		<u>84,886,366</u>	<u>66,046,323</u>
TOTAL NET ASSETS		<u>\$1,637,541,059</u>	<u>\$1,522,432,786</u>

The attached Notes form an integral part of these Financial Statements.

Approved by the Board of Directors on 10 July 2020.



Oscar Walters - Chairman



Antonio Maynard - Director

ST. KITTS-NEVIS SOCIAL SECURITY BOARD

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
 (Expressed in Eastern Caribbean Dollars)

	-----Social Security Fund -----	National Provident Fund	Total 2018	Total 2017
	Long Term	Short Term	Injury	
INCOME (Note 14)				
Contributions	69,592,413	17,397,737	8,698,868	94,746,932
Investments	31,477,580	3,788,490	6,702,673	49,442,929
Other	436,887	248,503	217,105	732,370
TOTAL INCOME	<u>101,506,880</u>	<u>21,434,730</u>	<u>15,618,646</u>	<u>144,922,231</u>
EXPENDITURE (Note 14 - Page 46)				
Benefits (Schedule I - Page 9)	76,976,281	13,499,655	1,448,647	91,924,583
Administration Expenses (Schedule II - Page 10)	11,447,105	2,413,105	792,527	14,665,739
Loss on Revaluation of Land and Buildings (Note 9 - Page 40)	-	-	-	1,310,541
Provision for Impairment of Debt (Net of Recovery) (Note 12 - Page 45)	(118,831)	(25,050)	(8,227)	(152,108)
Provision for Impairment -- Expected Credit Losses (Note 9 - Page 39)	(849,742)	(179,130)	(58,831)	(1,087,703)
Total Administration and Other Expenses (Schedule II - Page 10)	<u>10,478,532</u>	<u>2,208,925</u>	<u>725,469</u>	<u>13,425,928</u>
TOTAL EXPENDITURE	<u>87,454,813</u>	<u>15,708,580</u>	<u>2,174,116</u>	<u>99,100,547</u>
NET SURPLUS FOR THE YEAR (Note 13)	<u>\$14,052,067</u>	<u>\$5,726,150</u>	<u>\$13,444,530</u>	<u>\$45,821,684</u>

(Page 5)

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

	<u>2018</u>	<u>2017</u>
Net Surplus for the Year (Page 4) (Note 13)	34,049,559	45,821,684
Other Comprehensive Income:		
Unrealised Holding Gain – Investments (Notes 2 (f)(i) & 5)	-	14,224,666
Revaluation Surplus Credited to Income (Page 6)	<u>-</u>	<u>(186,642)</u>
Total Comprehensive Income for the Year (Page 6)	<u>\$34,049,559</u>	<u>\$59,859,708</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF CHANGES IN RESERVE FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2018
 (Expressed in Eastern Caribbean Dollars)

	Social Security Fund			National Provident Fund					
	Long Term Benefits Fund	Short Term Benefits Fund	Injury Benefits Fund	Members' Account	Reserve Fund	Revaluation Reserve	Unrealised Holding Gain/ (Loss)	Capital Reserve	
								Total	
Balance at 31 December 2016	1,063,381,963	125,536,251	217,943,237	3,608,622	25,699,667	1,330,976	3,501,947	11,190,705	1,452,193,368
Refund to NPF Members	-	-	-	(49,545)	-	-	-	-	(49,545)
Total Comprehensive Income (Page 5)	25,519,321	5,518,657	13,921,779	88,865	773,062	(186,642)	14,224,666	-	59,859,708
Balance at 31 December 2017 (Page 3)	<u>\$1,088,901,284</u>	<u>\$131,054,908</u>	<u>\$231,865,016</u>	<u>\$3,647,942</u>	<u>\$26,472,729</u>	<u>\$1,144,334</u>	<u>\$17,726,613</u>	<u>\$11,190,705</u>	<u>\$1,512,003,531</u>
Balance at 31 December 2017	1,088,901,284	131,054,908	231,865,016	3,647,942	26,472,729	1,144,334	17,726,613	11,190,705	1,512,003,531
Adjustment to Opening Reserves – ECL Calculations	76,146,295	16,811,520	5,933,479	-	-	-	(17,726,613)	-	81,164,681
Net Refund to NPF Members (Note 3 – Page 29)	-	-	-	(47,279)	-	-	-	-	(47,279)
Total Comprehensive Income (Page 5)	14,052,067	5,726,150	13,444,530	92,273	734,539	-	-	-	34,049,559
Balance at 31 December 2018 (Page 3)	<u>\$1,179,099,646</u>	<u>\$153,592,578</u>	<u>\$251,243,025</u>	<u>\$3,692,936</u>	<u>\$27,207,268</u>	<u>\$1,144,334</u>	<u>-</u>	<u>\$11,190,705</u>	<u>\$1,627,170,492</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARDSTAFF SUPPLEMENTAL BENEFITS RESERVE
INCOME AND EXPENDITURE ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

	<u>2018</u>	<u>2017</u>
INCOME		
Contributions	601,034	625,479
Investments	<u>141,370</u>	<u>351,108</u>
	<u>742,404</u>	<u>976,587</u>
EXPENDITURE		
Benefits (Schedule I - Page 9)	790,592	1,480,564
Administration Expense:		
Actual	-	5,527
Allocated (Schedule II – Page 10)	<u>10,500</u>	<u>10,500</u>
	<u>801,092</u>	<u>1,496,591</u>
NET DEFICIT FOR THE YEAR (Note 6 - Page 30)	<u>\$(58,688)</u>	<u>\$(520,004)</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Eastern Caribbean Dollars)

	<u>2018</u>	<u>2017</u>
Cash provided by operating activities:		
Net surplus for the year		
- SSF and NPF (Page 4)	34,049,559	45,821,684
- SSBP (Page 7)	(58,688)	(520,004)
Add non-cash items		
Depreciation and Amortisation (Less Reclassification) (Notes 7 & 8 - Pages 32 & 34)	1,106,281	1,218,043
(Gain)/Loss on disposal of Property, Plant and Equipment	(59,458)	12,917
Impairment Losses re ECL	(1,087,703)	-
Accrued Interest Impairments Reversed	5,691,021	-
Reclassification of Fair Value Changes	3,374,296	-
Surplus on Revaluation credited to Income re Chapel Street	<u>-</u>	<u>(186,642)</u>
	43,015,307	46,345,998
Non-cash working capital change		
Accrued Interest Receivable	(2,925,513)	3,660,126
Accounts Receivable and Prepaid Expenses	(23,308,919)	(111,048)
Accounts Payable	257,032	140,158
Sundry Creditors and Accruals	<u>(655,105)</u>	<u>(546,086)</u>
Cash provided by operating activities	<u>16,382,802</u>	<u>49,489,148</u>
Cash flows from investing activities		
Net Increase in Investments	(24,080,877)	(55,706,034)
Purchase of Property, Plant and Equipment	(132,208)	(295,708)
Proceeds from disposal of Property, Plant and Equipment	85,100	13,700
Refund to NPF Members	(47,279)	(49,545)
Purchase of Intangible Assets	<u>-</u>	<u>(64,639)</u>
Cash used in investing activities	<u>(24,175,264)</u>	<u>(56,102,226)</u>
Decrease in cash for the year	(7,792,462)	(6,613,078)
Cash at beginning of year	<u>23,644,044</u>	<u>30,257,122</u>
Cash at end of year	<u>\$15,851,582</u>	<u>\$23,644,044</u>
Cash at bank and in hand (Page 3)	<u>\$15,851,582</u>	<u>\$23,644,044</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

BENEFITS PAID
FOR THE YEAR ENDED 31 DECEMBER 2018
 (Expressed in Eastern Caribbean Dollars)

SCHEDULE I

a)	Social Security Fund:	<u>2018</u>		<u>2017</u>	
		Number of Claims	\$	Number of Claims	\$
	<u>Long Term Benefits</u>				
	Elderly Entrant Refund	21	8,793	19	5,825
	Survivors Pension	1,147	3,922,411	1,095	3,678,881
	Invalidity	363	4,103,680	359	3,731,870
	Age Pension	4,299	66,373,934	3,854	58,595,170
	Age Grant	<u>205</u>	<u>1,355,859</u>	<u>187</u>	<u>1,318,720</u>
		<u>6,035</u>	<u>75,764,677</u>	<u>5,514</u>	<u>67,330,466</u>
	Assistance Pension (Age)	262	815,919	286	881,105
	Assistance Pension (Invalidity)	<u>129</u>	<u>395,685</u>	<u>139</u>	<u>423,841</u>
		<u>391</u>	<u>1,211,604</u>	<u>425</u>	<u>1,304,946</u>
	Sub-Total (Page 4)	<u>6,426</u>	<u>76,976,281</u>	<u>5,939</u>	<u>68,635,412</u>
	<u>Short Term Benefits</u>				
	Sickness	12,429	10,065,525	13,163	10,051,774
	Funeral	328	799,490	271	657,269
	Maternity Allowance	490	2,407,390	529	2,604,546
	Maternity Grant	<u>495</u>	<u>227,250</u>	<u>542</u>	<u>247,950</u>
	Sub-Total (Page 4)	<u>13,742</u>	<u>13,499,655</u>	<u>14,505</u>	<u>13,561,539</u>
	<u>Employment Injury</u>				
	Injury	497	567,015	462	510,876
	Travelling Expenses	2	5,732	5	8,548
	Medical Care Expenses	219	101,638	199	123,280
	Death Benefits	20	174,173	23	184,963
	Constant Care	2	27,235	2	27,235
	Disablement - Pension	63	572,854	66	596,456
	Disablement - Grant	<u>-</u>	<u>-</u>	<u>1</u>	<u>32,017</u>
	Sub-Total (Page 4)	<u>803</u>	<u>1,448,647</u>	<u>758</u>	<u>1,483,375</u>
	TOTAL (Page 4)	<u>20,971</u>	<u>\$91,924,583</u>	<u>21,202</u>	<u>\$83,680,326</u>
b)	Staff Supplemental Benefits:				
	Refunds	5	789,895	6	1,479,867
	Pension	<u>1</u>	<u>697</u>	<u>1</u>	<u>697</u>
	Sub-Total (Page 7)	<u>6</u>	<u>790,592</u>	<u>7</u>	<u>1,480,564</u>
	GRAND TOTAL BENEFITS PAID	<u>20,977</u>	<u>\$92,715,175</u>	<u>21,209</u>	<u>\$85,160,890</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

ADMINISTRATION AND OTHER EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

<u>SCHEDULE II</u>	<u>2018</u>	<u>2017</u>
<u>ADMINISTRATION EXPENSES</u>		
Advertising and Publicity	157,132	108,368
Actuarial Review	122,313	-
Bad Debt Written Off	244	-
Donations	35,188	61,016
Anniversary Expenses	233,171	8,820
Audit Fees and Expenses	257,394	200,000
Bank Charges and Interest	13,696	12,213
Books, Periodicals, etc	692	1,407
Cleaning Expenses	17,479	16,871
Commission	2,419	1,000
Committee Expenses	41,277	31,665
Contribution for National Projects	191,554	78,701
Depreciation and Amortisation (Notes 2(d) & 2(e))	1,106,281	1,218,043
Electricity	587,391	598,473
Hospitality	128,357	77,977
Insurances	668,171	670,477
Land and House Tax	2,683	2,710
Other Professional Fees	384,559	45,700
Maintenance of Computer System	263,804	224,933
Maintenance of Premises	135,288	142,840
Medical Expenses	23,064	16,608
Members of Social Security Board - Allowance and Other Expenses	378,503	305,471
Motor Vehicle Expenses	49,696	43,026
Postages, Telephone and Telegraph	294,633	297,123
Repairs, Maintenance and Related Minor Purchases	133,116	107,590
Rental	1,500	700
Salaries and Allowances	7,761,026	7,955,443
Scholarships	119,370	219,625
Security Services	19,810	25,187
Social Security, Social Services, etc	664,045	677,550
Staff Pension	300,517	310,561
Stationery, Printing and Office Expenses	396,631	306,831
Subscriptions	68,828	71,514
Training Seminars and Conferences	306,637	365,042
Travelling and Subsistence	21,014	31,440
Uniforms	(9,247)	124,941
Wages - Other Employees	421,365	312,881
Less: Recovery from Comptroller of Inland Revenue, Labour Commissioner and Treasurer Nevis Island Administration	(623,362)	(562,602)
Maintenance Equipment Written Off	-	<u>95,815</u>
TOTAL ADMINISTRATION EXPENSES	<u>14,676,239</u>	<u>14,205,960</u>
<u>OTHER EXPENSES</u>		
Loss on Revaluation of Lands and Buildings (Note 7 – Page 33)	-	1,310,541
Provision for Impairment of Debt Net of Recovery (Note 12 – Page 45)	(152,108)	(85,780)
Provision for Impairment – Estimated Credit Losses (ECL) (Note 9 – Page 39)	<u>(1,087,703)</u>	-
TOTAL OTHER EXPENSES	<u>(1,239,811)</u>	<u>1,224,761</u>
TOTAL ADMINISTRATION AND OTHER EXPENSES	<u>\$13,436,428</u>	<u>\$15,430,721</u>
Allocated as follows:		
- Long Term Benefits Fund (Page 4)	10,478,532	11,876,925
- Short Term Benefits Fund (Page 4)	2,208,925	2,658,484
- Injury (Page 4)	725,469	871,810
- National Provident Fund (Page 4)	<u>13,002</u>	<u>13,002</u>
Sub-total (Page 4)	13,425,928	15,420,221
- Staff Supplemental Benefits Reserve Fund (Page 7)	<u>10,500</u>	<u>10,500</u>
TOTAL (As Above)	<u>\$13,436,428</u>	<u>\$15,430,721</u>

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Eastern Caribbean Dollars)

SCHEDULE III

Item	GROSS CARRYING AMOUNTS			D E P R E C I A T I O N			NET CARRYING AMOUNTS	
	31/12/17	Reclassification	31/12/18	31/12/17	Reclassification	31/12/18	31/12/18	31/12/17
Freehold Properties								
- Liverpool Row Property St Kitts - Land at Valuation	500,000	-	500,000	-	-	-	500,000	500,000
- E St. John Payne Annex Building - At Valuation	7,750,000	-	7,750,000	387,500	193,750	581,250	7,168,750	7,362,500
- Bay Road St Kitts - Land	1,427,637	-	1,427,637	-	-	-	1,427,637	1,427,637
- Bay Road St Kitts Building - At Valuation	5,014,593	-	5,014,593	250,174	125,365	375,539	4,639,054	4,764,419
	14,692,230	-	14,692,230	637,674	319,115	956,789	13,735,441	14,054,556
Furniture and Equipment - At Cost	3,880,658	(639,387)	3,246,898	2,635,169	420,588 (35,039)	2,490,941	755,957	1,245,489
Computer Equipment - At Cost	1,348,329	639,387	1,972,899	1,016,022	139,014 (93,650)	1,591,163	381,736	332,307
Motor Vehicles - At Cost	930,645	-	744,645	634,398	124,923 (173,067)	586,254	158,391	296,247
TOTAL	\$20,851,862	\$132,208 \$(327,398)	\$20,656,672	\$4,923,263	\$1,003,640 \$(301,756)	\$5,625,147	\$15,031,525	\$15,928,599

The attached Notes form an integral part of these Financial Statements.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

1 ESTABLISHMENT OF FUND

- Social Security Act 1977:

The Social Security Fund was established by The Social Security Act No 13 of 1977 on 29 December 1977. The Act repealed the National Provident Fund Act and established a system of Social Security providing pecuniary payments by way of various benefits to insured persons and social assistance by way of non-contributory old age pensions to insured and other persons not qualifying for benefits and for connected purposes. The Fund came into operation on 1 February 1978.

The Social Security Board ("Board") was established as a corporate body by The Act and is domiciled in the Federation of St Kitts and Nevis. The principal place of business is Bay Road, Basseterre, St Kitts.

- Transfer of National Provident Fund Assets and Liabilities:

According to the provisions of Section 55 (1) and (2) of the Social Security Act No 13 of 1977, on the appointed date (1 February 1978), all assets and liabilities of the National Provident Fund shall become assets and liabilities of the Social Security Fund - that is to say:

- a) All sums standing to the credit of and accruing to other assets of the National Provident Fund;
- b) All assets of the body charged with the administration of the provisions of the National Provident Fund;
- c) Any liabilities accrued on or accruing after the appointed day to which the assets mentioned in (a) and (b) above would have been applicable but for this Act shall be liabilities of the Social Security Fund.

- Actuarial Review of the Fund:

Section 39 (1) of the Social Security Act 1977 (as amended) makes provision for an actuarial review of the operation of the Fund during the period ended 31 December 1980 and thereafter during the period ending 31 December in every third year.

The twelfth actuarial review of the Social Security Board was carried out in July and December 2018 by the actuarial firm, Morneau Shepell, which was privately engaged to conduct the review for the period 2015 to 2017. The report, which was submitted in 2019, stated that policy and design indicators suggest that the current contribution and benefit provisions provide an adequate level of benefit and income protection for most workers and pensioners.

2 ACCOUNTING POLICIES

a) Basis of Accounting:

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared under the historical cost basis of accounting except for the revaluation of certain property, plant and equipment and investment securities and in accordance with the going concern assumption.

b) Changes in Accounting Policies:

The accounting policies adopted are consistent with those of the previous year including the adoption of the new and amended IAS, IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations:

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

2 ACCOUNTING POLICIES

b) Changes in Accounting Policies: (cont'd)

New and Amended Standards and Interpretations in effect and applicable

IFRS 9 - Financial Instruments (2014)

The Board has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018. IFRS 9 replaces International Accounting Standard (IAS) 39 and resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Board did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Board elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening reserve funds of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes repeat those disclosures made in the prior year.

The adoption of IFRS 9 resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

IFRS 9 contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Board has no hedge instruments, therefore hedge accounting is not applicable for the Board.

The adoption of IFRS 9 has impacted the following areas:

- Financial assets reclassified from available – for – sale (AFS) financial assets to fair value through Profit and Loss (FVPL)
- Financial assets reclassified from available – for – sale (AFS) financial assets to fair value through Other comprehensive income (FVOCI)

On the date of initial application, 1 January 2018, the measurement category and the carrying amount of the financial assets and liabilities in accordance with IAS 39 and IFRS 9 were compared as follows:

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NOTES TO THE FINANCIAL STATEMENTS
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2 ACCOUNTING POLICIES (cont'd)

b) Changes in Accounting Policies: (cont'd)

New and Amended Standards and Interpretations in effect and applicable (cont'd)

IFRS 9 - Financial Instruments (2014) (cont'd)

a. Classification and measurement of financial instruments

		IAS 39	IFRS 9		
		Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
Financial Assets					
Cash in Hand and at Bank	Amortised Cost (Loans and Receivables)		15,851,582	Amortised Cost	15,851,582
Receivables	Amortised Cost (Loans and Receivables)		51,906,205	Amortised Cost	51,906,409
Investment Securities	FVOCI (Available for Sale)		83,238,176	FVPL	83,238,176
	Amortised Cost (Loans and Receivables)		203,102,177	Amortised Cost	203,102,177
	Amortised Cost (Held to Maturity)		1,011,403,449	FVPL	1,011,403,449
			<u>\$1,365,501,589</u>		<u>\$1,365,501,793</u>

There were no changes to the classification and measurement of financial liabilities as a result of the application of IFRS 9.

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NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

2 ACCOUNTING POLICIES (cont'd)

b) Changes in Accounting Policies: (cont'd)

New and Amended Standards and Interpretations in effect and applicable (cont'd)*IFRS 9 - Financial Instruments (2014) (cont'd)***b. Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9**

The Board performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39 Carrying Amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 Carrying Amount January 1, 2018
	\$	\$	\$	\$
Financial Assets				
Amortised Cost				
Cash and Cash Equivalents	23,644,044	-	-	23,644,044
Investment Securities	1,222,803,543	-	76,561,363	1,299,364,906
Receivables	28,597,286	-	-	28,597,286
Accrued Interest	<u>21,426.855</u>	-	<u>5,691.020</u>	<u>27,117.875</u>
Total Assets Measured at at Amortised Cost	1,296,471,728	-	82,252,383	1,378,724,111
AFS Financial Assets				
Investment Securities	<u>80,060.355</u>	-	-	<u>80,060.355</u>
Total Financial Assets	<u>\$1,376,532,083</u>	-	<u>\$82,252,383</u>	<u>\$1,458,784,466</u>

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NOTES TO THE FINANCIAL STATEMENTS
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 (Expressed in Eastern Caribbean Dollars)
 (Continued)

2 ACCOUNTING POLICIES (cont'd)

b) Changes in Accounting Policies: (cont'd)

New and Amended Standards and Interpretations in effect and applicable (cont'd)*IFRS 9 - Financial Instruments (2014) (cont'd)***b. Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9 (cont'd)**

The total remeasurement income of \$81,164,681 was recognized in opening reserves at 1 January 2018 as follows:

	<u>Long Term Fund</u>	<u>Short Term Fund</u>	<u>Injury Benefit Fund</u>	<u>Revaluation Reserve</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Balance at 1 January 2018	1,088,901,284	131,054,908	231,865,016	30,061,652	1,481,882,860
Accumulated Fair Value losses of Investment securities FVPL previously classified as Investment securities – AFS and FVOCI	13,649,492	3,013,524	1,063,597	(17,726,613)	-
ECL on Securities now classified as FVPL	(33,659)	(7,431)	(2,622)	-	(43,712)
Losses reversed on financial assets at amortised cost based on ECL calculations	70,511,350	15,567,441	5,494,391	-	91,573,182
ECL Losses on Government Loans	(7,597,337)	(1,677,334)	(592,000)	-	(9,866,671)
ECL calculations on Loans to Staff	(383,551)	(84,680)	(29,887)	-	(498,118)
	<u>\$1,165,047,579</u>	<u>\$147,866,428</u>	<u>\$237,798,495</u>	<u>\$12,335,039</u>	<u>\$1,563,047,541</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

b) Changes in Accounting Policies (cont'd)

New and Amended Standards and Interpretations in effect and applicable (cont'd)

IFRS 9 - Financial Instruments (2014) (cont'd)

c. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment Allowance Under IAS 39	Remeasurement	Impairment Allowance Under IFRS 9
	\$	\$	\$
Investment Securities	-	43,961	43,961
Loans	<u>56,177,406</u>	<u>(46,900,568)</u>	<u>9,276,838</u>
	<u>\$56,177,406</u>	<u>\$(46,856,607)</u>	<u>\$9,320,799</u>

New and Amended Standards and Interpretations in effect and applicable

IFRS 15 Revenue from Contracts with Customers – provides a single, principles based five-step model to be applied to all contracts with customers effective 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration – addresses foreign currency transactions or parts of transactions where there are advance considerations - effective 1 January 2018.

IAS 40 Investment Property - clarifies a change of use and conditions to transfer asset to or from investment property - effective 1 January 2018.

Adoption of the other standards and interpretations did not have any effect on the performance of the Board.

New and amended Standards and Interpretations in issue but not yet effective and not early adopted

IFRS 16 Leases - effective 1 January 2019

Annual improvements to IFRS Standards 2015-2017 Cycle - Amends IAS 23 – effective 1 January 2019

Amendments to IAS1 and IAS 8 – effective 1 January 2020

Assessment is being made of the potential impact of these new standards and amendments.

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NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

c) Foreign Currencies:

All amounts are stated in Eastern Caribbean Dollars, which is the Board's functional currency. During the year, transactions involving foreign currencies are converted into Eastern Caribbean Dollars at the exchange rates prevailing at the dates of the transactions.

Assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the year end. Exchange gains or losses arising therefrom are accounted for in the Income and Expenditure Account.

d) Property, Plant and Equipment and Depreciation:

Property, plant and equipment are stated at cost and fair value. Provision for depreciation is calculated on the straight line basis at rates estimated to write off the assets over their expected useful lives.

Depreciation rates are as follows:

Buildings (Non residential real estate)	2.5% to 3.34%
Buildings (Rental Property)	3.34%
Furniture	15%
Computer System and Equipment	20%
Motor Vehicles	20%

Freehold Property

Land and buildings are measured at fair value less depreciation. Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Subsequent additions are at cost. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at valuation date. A gain on revaluation is first credited to the Income and Expenditure Account to the extent that the gain reverses a loss on the asset that was previously recognized as an expense in the Income and Expenditure Account. Any revaluation surplus is credited to the asset revaluation reserve included in the Reserve Funds section of the statement of financial position. Any revaluation deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve. Losses on revaluation for which there was no prior surplus are charged to the Income and Expenditure Account. Upon disposal of revalued assets, the Board has elected to transfer in full, the revaluation reserve relating to the particular asset being sold to the respective reserve accounts.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income and expenditure account in the year the item is derecognized.

Revaluation

The Board revalued all its land and buildings as at 13 June 2016. As there were no significant improvements to the buildings or properties from 31 December 2015 to the date of valuation with the exception of Pinneys Building, the Board of Directors decided to adopt these values at 31 December 2015. Depreciation is charged at the rate of 2.5%.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

e) Intangible Assets:

Acquired computer software licences, upgrades to software and related costs that are expected to contribute to the future economic benefit of the Board are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives at a rate of 20% per annum.

Costs associated with maintaining computer software programmes are recognized as an expense when incurred.

f) Financial Assets and Liabilities:

Accounting policies applied until December 31, 2017

Investments: Classification, Recognition, Subsequent Measurements and Derecognition:

As at 31 December 2017, investments were classified into four categories: Available - for- Sale, Held-to-maturity, Loans Receivable and Investment Properties (See note 2(m)). The classification depended on the purpose for which the assets were acquired and the Board determined the classification at initial recognition. The measurement and classification of investments considered as financial assets are disclosed below:

(i) Available-for-sale Investments - Debt and Equity:

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; they were initially recognised at cost. After initial recognition, all available-for-sale investments were measured at their fair values based on market quoted prices where available with gains and losses on remeasurement recognised directly in the Revaluation Reserve until sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously recognized in equity was included in the Income and Expenditure Account. Fair Values for unlisted securities were valued at cost less provision for diminution in value.

(ii) Held-to-Maturity Investments:

Investments classified as held-to-maturity were measured at cost less provision for diminution in value.

(iii) Loans Receivable:

Where the Board created financial assets by providing money directly to a debtor, these assets were classified as loans and were measured at amortised cost less provisions for impairment. For delinquent mortgages, specific provisions were established based on the extent of delinquency of the mortgages.

Investments were primarily derecognised when:

- the rights to receive cash flows from the assets had expired;
- the Board had transferred its rights to receive cash flows from the assets or had assumed an obligation to pay the cash flows in full without material delay to a third party.

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NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Accounting policies applied from January 1, 2018

i) Amortised Cost and Effective Interest Rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method for any difference between that initial amount, and for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes the transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit impaired (POCI) financial assets, assets that are credit impaired at initial recognition, the Board calculates the amortised cost of the asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cashflows.

When the Board revises the estimates of future cash flows, the carrying amount of the respective financial assets or liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

ii) Interest Income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- a) POCI financial assets for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset.
- b) Financial assets that are not POCI but have subsequently become credit impaired (or stage 3) for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

iii) Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes party to the contractual provision of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Board commits to purchase or sell the asset.

At initial recognition, the Board measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and liabilities carried at fair value through profit and loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognized in profit and loss when an asset is newly originated.

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NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Accounting policies applied from January 1, 2018 (cont'd)

iii) Initial recognition and measurement (cont'd)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset and liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial Assets

i) Classification and subsequent measurement

From 1 January 2018, the Board has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

- Debt instruments:

Debt instruments are those that meet the definition of financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on

- i) The Board's business model for managing the asset; and
- ii) The cash flow characteristics of the asset.

Based on these factors, the Board classifies its debts instruments into one of the following three measurement categories:

- Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principle and interest (SPPI) and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 2(I)(i). Interest income from these financial assets is included in interest and similar income using the effective interest rate method.

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(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Accounting policies applied from January 1, 2018 (cont'd)

Financial Assets (cont'd)

i) Classification and subsequent measurement (cont'd)

- Fair value through other comprehensive income (FVOCI):

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments amortised cost which are recognized in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in Net Investment Income. Interest income from these financial assets is included in Interest Income using the effective interest rate method.

- Fair value through profit and loss:

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized through profit or loss and presented in the profit or loss statement within Net Trading Income in the period in which it arises unless it arises from debt instruments that were designated at fair value or which are not held for trading in which case they are presented separately in Net Investment Income. Interest income from these financial assets is included in Interest Income using the effective interest rate method.

- Business Model:

The business model reflects how the Board manages the assets to generate cash flows. That is, whether the Board's objective is solely to collect the contractual cash flows from the assets or is to collect both contractual cash flow and cash flows arising from the sale of assets. If neither of these is applicable (eg financial assets are held for trading purposes) then the financial assets are classified as part of other business model and measured at FVPL. Factors considered by the Board in determining the business for a group of assets include experience on how the cash flows for the assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

- SPPI:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell, The Board assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Board considers whether the contractual cash flows are consistent with the basic lending arrangement i.e. interest includes only the consideration for the time value of money, credit risk, other basic lending arrangement and a profit margin is consistent with a basic lending agreement. Where the contractual terms introduce exposures to risk or volatility that are inconsistent with a basic lending agreement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Board reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

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(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Accounting policies applied from January 1, 2018 (cont'd)

Financial Assets (cont'd)

i) Classification and subsequent measurement (cont'd)

- Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective: that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Board subsequently measures all equity investments at fair value through profit or loss, except where the Board's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Board's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When the election is used, fair value gains and losses are recognized in OCI and are not reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Board's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of the profit or loss.

ii) Impairment of Financial Assets

The Board assessed on a forward-looking basis, the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Board recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 2 (l)(i) provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

The Board sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Board assesses whether or not the new terms are substantially different to the original terms. The Board does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual flows to amounts the borrower is expected to be able to pay.
- Whether substantial new terms are introduced, such as profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extensions of the loan term when the borrower is not in financial difficulty.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

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(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Accounting policies applied from January 1, 2018 (cont'd)

Financial Assets (cont'd)

(iii) Modification of loans (cont'd)

- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with loan.

If the terms are substantially different, the Board derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of the renegotiation is consequently considered to be the date of the initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Board also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Board recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Board substantially transfers all the risks and rewards of ownership, or (ii) the Board neither transfers nor retains substantially all the risks and rewards of ownership and the Board has not retained control.

The Board enters into transactions where it retains the contractual rights to receive cash flows from assets by assuming a contractual obligation to pay those cash flows to other entities and transfers substantially all the risks and rewards. These transactions are accounted for as 'pass through' transfers that results in derecognition if the Board:

- (i) Has no obligation to make payments unless it collects equivalent amounts from assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (ii) Has an obligation to remit any cash it collects from the assets without material delay.

Financial Liabilities

Accounting policies applied until December 31, 2017

Trade Creditors and Accruals

Liabilities for trade and other amounts payable were carried at cost, which is the fair value of the consideration to have been paid in the future for goods and services received, whether or not billed to the Board.

A financial liability was derecognised when the obligation was discharged, cancelled or expired.

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(Continued)

2 ACCOUNTING POLICIES (cont'd)

f) Financial Assets and Liabilities: (cont'd)

Financial Liabilities (cont'd)Accounting policies applied from January 1, 2018

Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised cost using the effective interest rate method.

Derecognition of Financial Liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Board and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The Board has no guarantees and loan commitments.

g) Accounts Receivable:

Accounts receivable are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts. Provisions are made specifically for any debts considered to be doubtful. Known bad debts are written off. Due to their short-term nature, the carrying value of accounts receivable, net of provision for impairment, approximates their fair value.

h) Accrued Interest Receivable:

Interest on interest-bearing investments is accrued from the date of the last payment on the investments to 31 December 2018, at the rates quoted for the period of the investments.

i) Revenue and Expenses:

Contributions are accounted for when actually received and paid. Other revenues and expenses are accounted for on the accrual basis of accounting except for dividends on equities which are accounted for on a cash basis.

Investment Income on the overseas Investment Portfolio is shown net of Management Fees which are charged against the Investment Income earned on the Portfolio.

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

j) Staff Supplemental Benefits Plan:

Effective February 1, 1998 the Board approved a Staff Supplemental Benefits Plan to be managed by the Social Security Board. Contributions to the Plan would represent 9% of salaries to be shared equally between the Board and Staff Members.

k) Provisions:

Provisions are recognised when the Board has a present obligation (legal or constructive) as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

l) Critical accounting estimates and judgement:

Use of Estimates:

The preparation of these financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with the information about the basis of calculation for each affected line item in the financial statements:

i) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk.
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.
- The determination of the probabilities of default utilized in the assessment of 12 month and lifetime credit losses.

Detailed information about the judgements and estimates made by the Board in the above areas are set out in Note 19 (d).

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

l) Critical accounting estimates and judgement: (cont'd)

Use of Estimates: (cont'd)

ii) Business models and SPPI as significant judgments

As well as ECL, determining the appropriate business models and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements.

In determining the classification of financial assets under IFRS 9, the Board assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing the time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial assets is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria.

Detailed information about the judgements and estimates made by the Board in the above areas are set out in Note 19 (d).

iii) Evaluation of business model applied in managing financial instruments

Upon adoption of IFRS 9, the Board developed business models which reflect how it manages its portfolio of financial instruments. The Board's business models need to be assessed at entity level or as a whole, but shall be applied to the level of a portfolio of financial instruments (i.e. group of financial instruments that are managed together by the Board) and not on an instrument by instrument basis, i.e. not based on intention or specific characteristics of individual financial instrument.

In determining the classification of a financial instrument under IFRS 9, the Board evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Board (e.g. held for trading, generating accrual income, direct matching to a specific liability) as those relate to the Board's investment and trading strategies.

iv) Impairment of financial assets:

Financial Assets are considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. In addition, qualitative and quantitative factors as outlined in note 2 (f) (ii) (Page 23) are considered.

Equity Instruments are considered impaired when there is a significant or prolonged decline in the fair value below cost. Determination of what is significant or prolonged requires judgment which includes consideration of volatility of the fair value, and the financial condition and viability of the investee. Prior to 1 January 2018, these investments were carried at cost less provision for impairment when there was no active market.

(v) Fair value measurement of financial assets:

A number of assets included in the Board's financial statements require measurement at, and/or disclosure of fair value. Fair value measurement of the Board's financial and non-financial assets utilizes market observable inputs and data as far as possible.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

l) Critical accounting estimates and judgement: (cont'd)

Use of Estimates: (cont'd)

(v) Fair value measurement of financial assets: (cont'd)

Inputs used in determining fair value measurement are categorized into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1 – quoted prices in active markets for identical assets that the entity can access at the measurement date
- Level 2 – inputs other than quoted market price are included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 – unobservable inputs for the asset

The Board measures the following at fair value:

- Revalued land and buildings – property, plant and equipment (See Note 7)
- Investment property (See Note 9)
- Quoted and Unquoted financial assets

(vi) Depreciation of property, plant and equipment:

The Board estimates the useful lives and residual values of property, plant and equipment based on the intended use of these assets, the periodic review of actual assets and the resulting depreciation determined thereon.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

m) Investment Properties:

Investment Properties include lands and land developments which are held to earn rental and other income, for capital appreciation or for both. A property that is both rented and owner-occupied, but cannot be sold or rented separately under a financial lease is classified as investment property if an insignificant portion of the property is exclusively used to conduct the business of the Board.

All the Investment properties are measured at fair value.

n) Current versus non-current distinction:

The Board presents assets and liabilities in the statement of financial position based on current and non-current classifications. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

2 ACCOUNTING POLICIES (cont'd)

n) Current versus non-current distinction: (cont'd)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Board classifies all other liabilities as non-current.

o) Offsetting Financial Instruments:

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3 NATIONAL PROVIDENT FUND - MEMBERS' ACCOUNT

During the year under review, the Social Security Fund repaid a total amount of \$47,279 to 33 members of the National Provident Fund (2017 = \$50,636 to 31 members) (See Page 6). The repayment represents members' claims against the Fund up to the date of settlement of their balances.

Summary of Member Account Movement 2018

	<u>Amount</u>	<u>No of Members</u>
Opening Balance 2018	3,647,942	4,424
Amounts Paid During 2018:		
Age Refunds	(47,279)	(33)
Interest Posted to Members' Account (Note 4)	<u>92,273</u>	—
Closing Balance 2018 (Page 3)	<u>\$3,692,936</u>	<u>4,391</u>

4 NATIONAL PROVIDENT FUND - RESERVE FUND

Section 26 (1) of The National Provident Fund Act, 1968 states that:

"There shall be a Reserve Fund of the National Provident Fund to be known as the National Provident Reserve Fund, hereinafter in this Act referred to as "the Reserve Fund", and into which shall be paid -

- a) all fines and penalties collected under this Act;
- b) contributions by employers or workers which for any reason may not be allocated to individual accounts in the Fund; and
- c) any other moneys authorised to be so paid under this Act or any Regulations made thereunder".

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

4 NATIONAL PROVIDENT FUND - RESERVE FUND (cont'd)

	<u>2018</u>	<u>2017</u>
Opening Balance, January 2018	26,472,729	25,699,667
Investment Income (Page 4)	839,814	874,929
Interest distributed to members' account (Note 3)	(92,273)	(88,865)
Administration Expense (Page 4)	(13,002)	(13,002)
Closing Balance, December 2018 (Page 3)	<u>\$27,207,268</u>	<u>\$26,472,729</u>

5 REVALUATION RESERVE

The revaluation reserve reflects gains on revaluation of freehold properties and financial instruments as follows:

	<u>Freehold Properties</u>	<u>Unrealised Gain/ Loss on Financial Instruments</u>	<u>Bonus Shares</u>	<u>Total 2018</u>	<u>Total 2017</u>
Balance as at 01 January 2018	1,144,334	17,726,613	11,190,705	30,061,652	16,023,628
Adjustment to prior year earnings re IFRS 9	-	(17,726,613)	-	(17,726,613)	-
Unrealised Holding (Loss)/Gain	-	-	-	-	14,224,666
Adjustment in Reserve due to Reclassification	-	-	-	-	(186,642)
Balance as at 31 December 2018	<u>\$1,144,334</u>	<u>-</u>	<u>\$11,190,705</u>	<u>\$12,335,039</u>	<u>\$30,061,652</u>

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6 STAFF SUPPLEMENTAL BENEFITS RESERVE FUND

	<u>2018</u>	<u>2017</u>
BALANCE - At Beginning of Year	10,429,255	10,949,259
Net Deficit for the Year (Page 7)	(58,688)	(520,004)
BALANCE - At End of Year (Page 3)	<u>\$10,370,567</u>	<u>\$10,429,255</u>

The Social Security Board operates a defined benefits plan. The effective date of the Staff Supplemental Benefit Plan (SSBP) which provides coverage for substantially all full-time employees was February 1998. In accordance with SRO No. 27 of 2003, SSBP reserve is constituted by transferring every year the excess of income over expenditure to the branch. Social Security Act, 1977 Section 42 subsection (1) indicates that any temporary insufficiency in the Fund to meet the liabilities of the Fund under the Act shall be met from money provided by the Legislature. Any moneys provided by the Legislature under Section 42 subsection (1) shall be repaid by the Fund by payment out of the Fund into the Consolidated Fund as soon as may be practicable.

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

6 STAFF SUPPLEMENTAL BENEFITS RESERVE FUND (cont'd)

Actuarial valuation of the SSBP which is to be done every three years was done by independent and qualified actuarial and financial consultants, Horizonow in 2014 in respect of the fund as at 31 December 2013 using the projected Unit Credit Method. The actuarial valuation in respect of the funds as at 31 December 2017 has not been finalized.

The SSBP was valued in accordance with IAS 19. It was assumed that IAS 19 was adopted on 1st January 2012. The full value of the obligation was assumed to be established on this day. Assets held in the name of the SSBP are not segregated but instead form part of the reserves of the Social Security Fund. For the purpose of IAS disclosure, therefore, SSBP is assumed to have no assets. The present value of the obligation for benefits was \$6,529,956 at 31 December 2013. Net assets available for benefits at 31 December 2018 was \$10,370,567 (2017 = \$10,429,255).

The Social Security Board has decided to move to a defined contribution plan and to have the assets of the SSBP separated from Social Security Fund, and the necessary measures are being put in place to give effect to this.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

7 PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings at at Fair Value	Furniture & Equipment at Cost	Computer Equipment at Cost	Motor Vehicles at Cost	Total
Year Ended 31 December 2018					
Gross Carrying Amounts					
Balance at 1 January 2018	14,692,230	3,880,658	1,348,329	930,645	20,851,862
Additions	-	41,573	90,635	-	132,208
Disposals	-	(35,946)	(105,452)	(186,000)	(327,398)
Reclassification	-	(639,387)	639,387	-	-
Balance at 31 December 2018	<u>14,692,230</u>	<u>3,246,898</u>	<u>1,972,899</u>	<u>744,645</u>	<u>20,656,672</u>
Accumulated Depreciation					
Balance at 1 January 2018	(637,674)	(2,635,169)	(1,016,022)	(634,398)	(4,923,263)
Additions	(319,115)	(420,588)	(139,014)	(124,923)	(1,003,640)
Disposals	-	35,039	93,650	173,067	301,756
Reclassification	-	529,777	(529,777)	-	-
Balance at 31 December 2018	<u>(956,789)</u>	<u>(2,490,941)</u>	<u>(1,591,163)</u>	<u>(586,254)</u>	<u>(5,625,147)</u>
Net Carrying Amounts 2018	<u>\$13,735,441</u>	<u>\$755,957</u>	<u>\$381,736</u>	<u>\$158,391</u>	<u>\$15,031,525</u> (Pages 3 & 11)
Year Ended 31 December 2017					
Gross Carrying Amounts					
Balance at 1 January 2017	16,682,230	3,824,681	1,296,344	918,745	22,722,000
Additions	-	129,274	81,434	85,000	295,708
Disposals	-	(73,297)	(29,449)	(73,100)	(175,846)
Reclassification	(1,990,000)	-	-	-	(1,990,000)
Balance at 31 December 2017	<u>14,692,230</u>	<u>3,880,658</u>	<u>1,348,329</u>	<u>930,645</u>	<u>20,851,862</u>
Accumulated Depreciation					
Balance at 1 January 2017	(359,372)	(2,208,474)	(928,867)	(535,869)	(4,032,582)
Additions	(349,724)	(481,485)	(113,494)	(166,629)	(1,111,332)
Disposals	-	54,790	26,339	68,100	149,229
Reclassification	71,422	-	-	-	71,422
Balance at 31 December 2017	<u>(637,674)</u>	<u>(2,635,169)</u>	<u>(1,016,022)</u>	<u>(634,398)</u>	<u>(4,923,263)</u>
Net Carrying Amounts 2017	<u>\$14,054,556</u>	<u>\$1,245,489</u>	<u>\$332,307</u>	<u>\$296,247</u>	<u>\$15,928,599</u> (Pages 3 & 11)

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

7 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Fair Value of Land and Buildings

Fair value of the Board's land and buildings was determined based on appraisals performed by an independent, professionally-qualified valuer, to determine the value of the land and buildings as at 31 December 2015. The valuation reports were completed as at 13 June 2016. There were no significant improvements to the buildings or properties from 31 December 2015 to the date of valuation with the exception of Pinneys Building which had additional works in the value of \$1.6 million. This amount was written off in 2016 as the cost exceeded the revalued amount. During 2017, final billing in respect of construction of Pinneys Building was settled in the amount of \$1,497,183. This had been written off in the year ended 31 December 2017.

The valuation was carried out using a market based approach which reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question including location, current condition and use, and the square footage. In some cases different approaches were used and comparison made between the results in arriving at the final value. The valuation processes and the fair value changes were reviewed by the Board of Directors who decided to adopt these values as at 31 December 2015. This valuation placed these assets in level 2 within the financial hierarchy (see note 19 (b) – Pages 49 and 50).

	<u>2018</u>	<u>2017</u>
Land and Buildings at valuation	\$13,735,441	\$14,054,556

If land and buildings were measured using the historical cost, the carrying amounts would be as follows:

	<u>2018</u>	<u>2017</u>
Net Carrying Amount	\$5,975,512	\$6,317,315

Reclassification

In accordance with the International Accounting Standard 40, it was decided during the year ended 31 December 2016 that the Pinney's Estate building be classified as Investment Property. Chapel Street property was also reclassified in 2017 to investment property due to the change in use.

The Capital Revaluation Reserve comprises:

<u>Property</u>	<u>Capital</u> <u>Revaluation</u> <u>Reserve at 1</u> <u>January 2018</u>	<u>Adjustment to Capital</u> <u>Revaluation</u> <u>Reserve</u>	<u>Charged to</u> <u>Income &</u> <u>Expenditure</u>	<u>Capital</u> <u>Revaluation Reserve</u> <u>31 December 2018</u>
Bay Road - St Kitts	\$1,144,334	=	=	\$1,144,334

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8	INTANGIBLE ASSETS	<u>2018</u>	<u>2017</u>
	Computer Software and Development		
	Cost at Beginning of Year	1,664,787	1,600,148
	Additions during the Year	<u>-</u>	<u>64,639</u>
	Cost at End of Year	<u>1,664,787</u>	<u>1,664,787</u>
	Accumulated Amortisation -- Beginning of year	(1,394,125)	(1,287,414)
	Amortisation for the Year	<u>(102,641)</u>	<u>(106,711)</u>
	Accumulated Amortisation -- End of Year	<u>(1,496,766)</u>	<u>(1,394,125)</u>
	Net Book Value (Page 3)	<u>\$168,021</u>	<u>\$270,662</u>
9	INVESTMENTS	<u>2018</u>	<u>2017</u>
	Butlers -- Nevis	76,000	76,000
	Franklands -- St Kitts	11,100,000	11,100,000
	Fountain Estate -- St Kitts	640,000	640,000
	Saddle Hill -- Nevis	230,000	230,000
	Scotch Bonnet SE Peninsula -- St Kitts	1,095,000	1,095,000
	Douglas Estate -- St Kitts	9,512,343	9,927,656
	Land -- Pelican Resort -- St Kitts	25,560,000	25,560,000
	Land -- Brighton Estate	26,241,992	-
	Winter Forest Estate -- Nevis	4,780,000	4,780,000
	Land -- Church Street	1,920,000	1,920,000
	Pinney's Estate Property	19,300,000	19,300,000
	Chapel Street Property	1,918,578	1,918,578
	Beacon Heights Development	<u>60,776,070</u>	<u>60,776,070</u>
	TOTAL INVESTMENT PROPERTIES (Page 3)	<u>\$163,149,983</u>	<u>\$137,323,304</u>
	Other Investments Under IAS 39	<u>2018</u>	<u>2017</u>
	Available-for-Sale:		
	Debt Securities: quoted at market value	-	3,063,288
	Equities:		
	Quoted at market value	-	76,568,067
	Unquoted	<u>-</u>	<u>429,000</u>
	Total Available-for-Sale	<u>-</u>	<u>80,060,355</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

9	INVESTMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	Other Investments Under IAS 39 (cont'd)		
	Held to Maturity:		
	Fixed Deposits:		
	British American Insurance (Anguilla) } See Note below – Page 40	-	1,154,332
	British American Insurance (St Kitts) }	-	890,063
	SKNA National Bank Limited	-	911,491,935
	TDC Finance Company Limited	-	8,321,764
	Bank of Nevis Limited	-	29,764,889
	St. Kitts Credit Union	-	2,297,553
	Nevis Credit Union	-	15,936,249
	Development Bank of St Kitts and Nevis	-	<u>19,647,638</u>
		-	<u>989,504,423</u>
	Call Accounts:		
	R B C Dominion Securities	-	778,037
	Crown Agents	-	416,884
	SKNA National Bank Limited	-	934,008
	Bank of Nova Scotia	-	<u>453,742</u>
		-	<u>2,582,671</u>
	Treasury Bills - St Kitts	-	23,040,000
	Treasury Bills - Nevis	-	<u>6,912,413</u>
		-	<u>29,952,413</u>
	Debt Securities Unquoted	-	<u>25,845,654</u>
	Total Held to Maturity	-	<u>1,047,885,161</u>
	Loans Receivable:		
	Government	-	13,533,858
	Statutory Corporations	-	208,955,424
	Staff Loans and Advances	-	<u>10,650,901</u>
	Total Loans Receivable	-	<u>233,140,183</u>
	Total Other Investments – Carried Forward	-	<u>1,361,085,699</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
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(Continued)

9	INVESTMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	Total Other Investments – Brought Forward	-	1,361,085,699
	Provision for Impairment		
	Provision for impairment – CL Financial Group Investments (See Note below – Page 40)	-	(2,044,395)
	Provision for impairment – SKN Government Debts (See Note below – Page 42)	-	(56,177,406)
	TOTAL OTHER INVESTMENTS NET OF PROVISIONS FOR IMPAIRMENT (Page 3)	<u>-</u>	<u>\$1,302,863,898</u>
	Financial Instruments after IFRS 9		
	Other Investments		
	Fair Value Through Profit and Loss		
	Debt Securities: quoted at market value	8,472,422	-
	Debt Securities: Unquoted	55,300,409	-
	Treasury Bills – St Kitts	23,040,000	-
	Treasury Bills – Nevis	6,912,413	-
	Provision for Impairment ECL	(43,961)	-
	Equities:		
	Quoted at market value	74,336,754	-
	Unquoted	<u>429,000</u>	-
	Total Fair Value through Profit and Loss	<u>168,447,037</u>	-
	Amortised Cost		
	Fixed Deposits:		
	British American Insurance (Anguilla) } See Note below	1,154,332	-
	British American Insurance (St Kitts) }	890,063	-
	Provision for Impairment – CL Financial Group Investments & British American Insurance	(2,044,395)	-
	SKNA National Bank Limited	850,242,185	-
	TDC Finance Company Limited	8,321,764	-
	Bank of Nevis Limited	44,764,889	-
	St. Kitts Credit Union	2,297,553	-
	Nevis Credit Union	20,936,249	-
	Development Bank of St Kitts and Nevis	<u>19,647,638</u>	-
		<u>946,210,278</u>	-

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(Continued)

9	INVESTMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	Amortised Cost (cont'd)		
	Call Accounts:		
	R B C Dominion Securities	1,333,874	-
	Morgan Stanley Wealth Management	85,462	-
	Crown Agents	38,100	-
	SKNA National Bank Limited	5,524,421	-
	Bank of Nova Scotia	<u>2,663,247</u>	-
		<u>9,645,104</u>	-
	Sub Total ShortTerm Deposits at Amortised Cost	<u>955,855,382</u>	-
	Other Instruments at Amortised Cost		
	Government Loans	14,502,947	-
	Statutory Corporations	238,135,309	-
	Staff Loans and Advances	6,641,327	-
	Provision for Impairment ECL	<u>(9,276,838)</u>	-
	Total Loans Receivable	<u>250,002,745</u>	-
	Total Financial Instruments measured at Amortised Cost	<u>1,205,858,127</u>	-
	TOTAL OTHER INVESTMENTS (Page 3)	<u>\$1,374,305,164</u>	-
	Provision for impairment – SKN Government Debts comprises:		
	<u>Prior to 1 January 2018</u>	<u>2018</u>	<u>2017</u>
	- Nevis Island Administration	-	9,367,729
	- St Kitts Statutory Corporations	<u>-</u>	<u>46,809,677</u>
	TOTAL (See above – Page 36)	<u>-</u>	<u>\$56,177,406</u>
	<u>As applicable from 1 January 2018</u>		
	- Government and Statutory Corporations	<u>\$8,597,666</u>	<u>-</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

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(Continued)

9	INVESTMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	The movement for the year on investments is as follows:		
	<u>Prior to 1 January 2018</u>		
	Investment Property:		
	Balance at beginning of year	-	135,891,770
	Additions	-	273,904
	Cost Transfers/Sales Adjustments	-	(760,948)
	Reclassification of Property	-	<u>1,918,578</u>
	Balance at end of year	<u>-</u>	<u>\$137,323,304</u>
	Available for Sale Investments:		
	Balance at beginning of year	-	57,589,114
	Additions	-	18,908,133
	Matured Securities	-	(11,580,828)
	Change in Market Value	-	15,143,936
	Bonus Shares Received	-	-
	Balance at end of year (Net of Provision for impairment)	<u>-</u>	<u>\$80,060,355</u>
	Held to Maturity:		
	Balance at beginning of year	-	1,024,296,792
	Additions	-	60,416,291
	Retired	-	<u>(38,872,317)</u>
	Balance at end of year (Net of Provision for impairment)	<u>-</u>	<u>\$1,045,840,766</u>
	Analysis of Provision for Impairment:		
	Balance brought forward	-	2,298,208
	Reversal for the year (See Note Below – Page 40)	-	<u>(253,813)</u>
	Balance carried forward	<u>-</u>	<u>\$2,044,395</u>
	Loans Receivable:		
	Balance at beginning of year	-	150,560,248
	Additions	-	31,566,486
	Amount Written Off	-	<u>(5,163,957)</u>
	Balance at end of year (Net of Provision for Impairment)	<u>-</u>	<u>\$176,962,777</u>
	Analysis of Provision for Impairment:		
	Balance brought forward and carried forward	<u>-</u>	<u>\$56,177,406</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

9	INVESTMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	<u>As applicable from 1 January 2018</u>		
	Investment Property:		
	Balance at beginning of year	137,323,304	135,891,770
	Additions	26,241,992	273,904
	Cost Transfers/Sales Adjustment	(415,313)	(760,949)
	Reclassification of Property	<u>-</u>	<u>1,918,578</u>
	Balance at end of year	<u>\$163,149,983</u>	<u>\$137,323,304</u>
	Financial Instruments at Fair Value through Profit and Loss		
	Balance at beginning of year	80,060,355	-
	Additions	13,922,374	-
	Retired	(8,524,848)	-
	Change in Market Value	(2,240,480)	-
	Impairments	<u>(23,189)</u>	<u>-</u>
	Balance at end of year (Net of Provision for Impairment)	<u>\$83,194,212</u>	<u>-</u>
	Financial Instruments at Amortised Cost		
	Balance at beginning of year	1,222,803,543	-
	Additions	151,339,893	-
	Retired or Repaid	(159,637,808)	-
	Reversal of debt written off due to IFRS 9	85,882,162	-
	ECL Adjustments	<u>(9,276,838)</u>	<u>-</u>
	Balance at end of year (Net of Provision for Impairment)	<u>\$1,291,110,952</u>	<u>-</u>
	Analysis of Provision for Impairment:		
	Balance brought forward	<u>\$2,044,395</u>	<u>-</u>
	Analysis of Provision for Impairment:		
	Balance brought forward	56,177,406	-
	Impairment reversed Re IFRS 9	(56,177,406)	-
	Adjustment due to ECL Calculations	10,408,502	-
	Charge for the year (Pages 4 and 10)	<u>(1,087,703)</u>	<u>-</u>
	Balance carried forward	<u>\$9,320,799</u>	<u>-</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018(Expressed in Eastern Caribbean Dollars)
(Continued)

9 INVESTMENTS (cont'd)

Fixed Deposits:

Interest rates range between 3.0% and 6.5% (2017 = 3.0% and 6.5%) per annum with maximum maturity of three years up to October 10, 2020.

Call Accounts:

Interest rates range between zero to 0.1% (2017 = zero to 0.1%) per annum.

Treasury Bills:

Interest rates are between 4% and 6.5% (2017 = between 4% and 6.5%) per annum with terms between 91 days and 365 days.

Debt Securities Unquoted:

These securities earn interest at varying rates up to 7.5% (2017 = up to 7.5%) per annum and have maturity dates ranging between 2018 and 2057.

Loans Receivable:

The loans earn interest at rates ranging from 2% to 7% per annum and have maturity dates ranging from 2019 to 2054.

Collateral Security:

All the loans are secured by guarantees and/or mortgages over the assets of the respective borrowers except for NIA loans, NHC Affordable Homes Loan and Development Bank Student Loans.

CL Financial Group Investments:

During 2016, the Social Security Board received full settlement for its investments in the CLICO (Trinidad). The principal and outstanding interest which had been fully provided for and legal costs relating to the case were recovered (see Note 11). During 2017, an amount of \$253,813 was also received in respect of the Board's Investments in British American Insurance Ltd (St Kitts) and British American Insurance Ltd (Anguilla). As at the end of the 2018 financial year, the following C.L Financial Group Investments remain unrecovered:

	<u>Investment Amount</u>	<u>Amount Received</u>	<u>Provision</u>		<u>Maturity Date</u>
			<u>2018</u>	<u>2017</u>	
British American Insurance Co Ltd (St Kitts)	1,000,000	109,937	890,063	890,063	March 6, 2009
British American Insurance Co Ltd (Anguilla)	<u>1,298,208</u>	<u>143,876</u>	<u>1,154,332</u>	<u>1,154,332</u>	May 19, 2009
	<u>\$2,298,208</u>	<u>\$253,813</u>	<u>\$2,044,395</u>	<u>\$2,044,395</u>	

Revaluation of Investment Properties:

Investment properties which were revalued on 13 June 2016 by an independent valuer are stated at fair value. 'Fair Value' is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. These values are based on appraisals performed by an independent, professionally qualified valuer with recent experience in the locations and the properties valued.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

(Continued)

9 INVESTMENTS (cont'd)

Revaluation of Investment Properties: (cont'd)

The market based approach was used which involved the use of observable market data concerning the selling prices or rental income for similar properties and incorporated adjustments for factors specific to the properties in question including location, current condition and use, and the square footage. The valuation processes and the fair value changes were reviewed by the Board of Directors who decided to adopt these values as at 31 December 2015. The use of observable market data resulted in the movement of the investment properties from level 3 to level 2 during the year ended 31 December 2016 (Note 19 (b) – Pages 49 and 50).

The estimated fair market value of the Board's investment properties at 31 December 2018 is \$163,149,983 (2017 - \$137,323,304). The movement in the investment property is due mainly to sale of Douglas Estate land and finalization of the purchase of Brighton's Estate.

During 2016, the Pinneys Estate Property, based on the level of owner occupancy, was reclassified from Property, Plant and Equipment to Investment Property. A similar decision was made in 2017 in relation to the Chapel Street Property based on its change in use. This resulted in revaluation reserve of \$186,642 being credited to Income in the year ended 31 December 2017. Rental income from owner-occupied property was \$211,488 (2017 - \$211,638). Rental Income from Investment properties was earned as follows in 2018:

	<u>2018</u>	<u>2017</u>
Rental Income From Investment Properties	712,740	636,126
Rental Expense	<u>(23,159)</u>	<u>(6,167)</u>
Net Rental Income	<u>\$689,581</u>	<u>\$629,959</u>

St Kitts and Nevis Government Debt

A number of Government Debts were restructured from 2012 to 2014 as follows:

- a) *St Kitts and Nevis Government Bonds* - In March 2012 a 10 year bond with interest rate of 7.5% and principal of \$28,688,000, and a 12 year \$15,000,000 bond, with interest rate of 8.5% and principal of \$12,884,610 were retired in exchange for a par bond of \$41,572,610 at an interest rate of 1.5% per annum for 45 years. There is a 15 year moratorium on principal with interest payable monthly throughout the life of the bond.
- b) *Nevis Island Administration and Statutory Bodies*:- In April 2013, four loans to the Nevis Island Administration and the Nevis Land and Housing Development Corporation (NHLDC) totalling \$26.9M were restructured, resulting in a loss provision of \$9.3M.

Loss Provision Details

Provision Amount

Nevis Housing & Land Development Corporation	2,985,175
Nevis Housing & Land Development Corporation	2,032,980
Nevis Island Administration - Capital Projects	4,187,373
Nevis Island Administration – Asphalt Plant	<u>162,201</u>
TOTAL	<u>\$9,367,729</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

9 INVESTMENTS (cont'd)

St Kitts and Nevis Government Debt (cont'd)

- c) *St Kitts Statutory Corporations - 2014* - On 15 August 2014 the Social Security Board and the Development Bank of St Kitts and Nevis signed an agreement to give effect to the restructuring of eight loans. These restructured loans, including accrued interest, totalled \$45.9M.

On 11 November 2014, the Social Security Board and the National Housing Corporation (NHC) signed an agreement to give effect to the restructuring of five loans. These restructured loans, including accrued interest, totalled \$133.6M.

The loans in question were discounted, resulting in a total loan loss provision of \$40.5M. These losses were adjusted in 2018 on the implementation of IFRS 9.

Loan Loss Provision Details

Provision Amount

National Housing Corporation	<u>2018</u>	<u>2017</u>
National Housing Corporation-Affordable Homes	15,711,911	15,711,911
National Housing Corporation-Low Income Housing	5,776,998	5,776,998
National Housing Corporation-Starter Homes	4,094,870	4,094,870
National Housing Corporation-Town Houses	1,268,270	1,268,270
National Housing Corporation-Road Building Project	<u>689,430</u>	<u>689,430</u>
National Housing Corporation Provision	<u>27,541,479</u>	<u>27,541,479</u>
Development Bank		
Development Bank-Middle Mortgage	1,891,443	1,891,443
Development Bank-New Product	689,186	689,186
Development Bank-Student	10,914,431	10,914,431
Development Bank-SS Housing	1,590,190	1,590,190
Development Bank-Building Mortgage	2,716,105	2,716,105
Development Bank-Civil Servants	<u>1,466,843</u>	<u>1,466,843</u>
Development Bank Provision	<u>19,268,198</u>	<u>19,268,198</u>
Total Provision	<u>\$46,809,677</u>	<u>\$46,809,677</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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 (Expressed in Eastern Caribbean Dollars)
 (Continued)

10	CASH AT BANK AND IN HAND	<u>2018</u>	<u>2017</u>
	Cash at Bank - Current Accounts		
	Royal Bank of Canada	17,372	53,647
	SKNA National Bank Limited (Benefits)	1,264,002	2,425,545
	SKNA National Bank Limited (Social Services Levy & Protection of Employment Levy)	2,075,330	519,053
	SKNA National Bank Limited (Administrative)	10,245,627	7,905,219
	SKNA National Bank Limited (Beacon Heights)	<u>1,231,416</u>	<u>697,163</u>
		14,833,747	11,600,627
	Cash at Bank - Savings Accounts		
	Royal Bank of Canada	139,412	137,063
	SKNA National Bank Limited	440,152	11,052,745
	SKNA National Bank Limited (Escrow)	2,739	2,739
	Nevis Co-Operative Credit Union	35	35
	Cash in Hand	<u>435,497</u>	<u>850,835</u>
	TOTAL (Page 3)	<u>\$15,851,582</u>	<u>\$23,644,044</u>

During the year under review, the savings accounts earned interest at rates of 0.1% and 2% per annum.

11	ACCRUED INTEREST RECEIVABLE	<u>2018</u>	<u>2017</u>
	Balance at Beginning of Year	21,426,855	25,086,981
	Interest Earned during the Year	42,577,082	40,872,585
	Interest Received during the Year	(45,342,589)	(44,532,711)
	Reversal of Impairment	<u>5,691,020</u>	-
	Balance at End of Year (Page 3)	<u>\$24,352,368</u>	<u>\$21,426,855</u>

As at 31 December 2018, the aging analysis of accrued interest is as follows:

	<u>Total</u>	<u>Neither Past Due nor Impaired</u>	<u>Past Due but not Impaired 30 to 90 days</u>	<u>over 90 days</u>
2018	<u>\$24,352,368</u>	<u>\$24,352,368</u>	-	-
2017	<u>\$21,426,855</u>	<u>\$21,426,855</u>	-	-

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Eastern Caribbean Dollars)

(Continued)

11 ACCRUED INTEREST RECEIVABLE (cont'd)

Statutory Corporations

During the year under review the provision which was made in respect of interest due on Development Bank of St. Kitts and Nevis Civil Servants Loans due to unpaid amounts was reversed on implementation of IFRS 9 which took interest due into consideration in the ECL calculations.

Analysis of Provison for Impairment:

Analysis of Impairment:	<u>2018</u>	<u>2017</u>
Balance brought forward	5,691,020	5,691,020
Recoveries/Writebacks re: ECL Calculation	<u>(5,691,020)</u>	<u>-</u>
Balance carried forward	<u>-</u>	<u>\$5,691,020</u>

Interest rates earned during the year are explained under Notes 9 and 10.

CLICO GROUP OF COMPANIES (See Note 9 – Page 40 and above)

During the year ended 31 December 2010, CLICO (Trinidad) Limited, CLICO (Barbados) Limited, British American Insurance Company (Anguilla) and British American Insurance Company Limited (St Kitts) reported that these investee entities (all Members of C L Financial Limited Group) experienced liquidity problems which created a negative impact on their day to day operations and also resulted in their inability to satisfy their investors' expectations (See Note 9 – Page 40).

During 2016 the Board received full settlement for the investment in CLICO (Trinidad) Limited. The principal and outstanding interest which had been fully provided for and legal costs relating to the case were recovered.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS	<u>2018</u>	<u>2017</u>
Non-Current:		
Advance Payment to Contractor	9,330,000	9,706,000
Provision for Impairment (See Note Below)	<u>(9,330,000)</u>	<u>(9,706,000)</u>
TOTAL	<u>-</u>	<u>-</u>
Current:		
Accounts Receivable	2,223,827	2,084,360
Deposits and Related Expenses on Land Purchase (See Note Below)	53,306,952	29,743,361
Prepayments		
Prepaid Expenses	239,440	451,453
Plant and Equipment	88,600	50,432
Provision for Doubtful Debts	<u>(3,952,614)</u>	<u>(3,732,320)</u>
TOTAL (Page 3)	<u>\$51,906,205</u>	<u>\$28,597,286</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

12	ACCOUNTS RECEIVABLE AND PREPAYMENTS (cont'd)	<u>2018</u>	<u>2017</u>
	Analysis of Provision for Impairment:		
	Balance brought forward (Non - Current and Current)	13,438,320	13,524,100
	Recoveries/Write offs	(379,597)	(168,200)
	Charge for the year (See Note Below)	<u>223,891</u>	<u>82,420</u>
	TOTAL	<u>\$13,282,614</u>	<u>\$13,438,320</u>

Advance Payment to Contractor:

Included in Receivables is an amount of \$9,330,000 (2017= \$9,706,200) being advance payment to contractor in relation to the Beacon Heights Project. Management of the Social Security Board carried out a critical and objective review of the recoverability of this account during 2016 and decided to make a full provision for impairment. An amount of \$376,000 was recovered during the year under review.

Deposits and Related Expenses on Land Purchase:

Deposits and Related Expenses on Land Purchases in the amount of \$53,306,952 (2017= \$29,743,361) represents deposits and related expenses paid on the purchase of land. Provision was made for \$1,914,444 (2017=\$1,914,444). This amount was reversed subsequently in 2019 as the transaction was finalized. During December 2018, an amount of \$26,216,759 was expended to finalise the purchase of the Dale Lands. The transaction was not fully finalized at the end of the financial year.

Charge for the year (\$223,891)

During the year, provision was made for SSMC (\$30,740) and Other Receivables (\$193,151) which are considered uncollectible.

13	ALLOCATION OF NET SURPLUS	<u>2018</u>	<u>2017</u>
	Social Security Fund		
	a) Long Term Benefits Fund (Page 4)	14,052,067	25,519,321
	b) Short Term Benefits Fund (Page 4)	5,726,150	5,518,657
	c) Injury Benefits Fund (Page 4)	<u>13,444,530</u>	<u>13,921,779</u>
		<u>33,222,747</u>	<u>44,959,757</u>
	National Provident Fund		
	a) Members' Account	92,273	88,865
	b) Reserve Fund	<u>734,539</u>	<u>773,062</u>
	Sub-Total (Page 4)	<u>826,812</u>	<u>861,927</u>
	NET SURPLUS FOR THE YEAR (Page 4)	<u>\$34,049,559</u>	<u>\$45,821,684</u>

ST KITTS-NEVIS SOCIAL SECURITY BOARDNOTES TO THE FINANCIAL STATEMENTS
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(Continued)

14 DISTRIBUTION OF INCOME AND EXPENDITURE

According to the financial and accounting regulations of the Social Security Fund, Income and Expenditure are distributed as follows:

1) Social Security Fund - Contribution Income:

The income from contributions shall be distributed among the benefit branches in the following proportion:

(a) Short Term Benefits Branch	2/11
(b) Long Term Benefits Branch	8/11
(c) Injury Benefits Branch	1/11

2) Staff Supplemental Benefits - Contribution Income:

Contributions to the staff supplemental benefits reserve fund shall be credited to that benefits branch.

3) Investment Income:

The income from the investment of the reserves shall be allocated as follows:

- a) the income from the investment of the Short term Benefits Reserve shall be allocated to the Short-term Benefits Branch;
- b) the income from the investment of the Long term Benefits Reserve shall be allocated to the Long-term Benefits Branch;
- c) the income from the investments belonging to the Injury Benefits Reserve Fund, shall be allocated to the Injury Benefits Branch;
- d) the income from the investment of the National Provident Reserve Fund, shall be allocated to the Provident Fund Branch.
- e) the income from the investment of the Staff Supplemental Reserve shall be allocated to the Staff Supplemental Benefits Reserve Branch.

4) Other Income:

Any income of the Fund which cannot be identified with any specific branch shall be allocated to the Short-term, Long-term and Injury Benefit Branches in equal shares.

5) Distribution of Expenditure:

a) Benefits and Assistance:

All expenditure of the Fund on benefits and assistance shall be debited to the account of the appropriate branch.

b) Administrative Expenditure:

The administrative expenditure of the Board shall be distributed between the benefits branches in such a manner that the proportion allocated to a particular branch shall be equal to the proportion which the sum of the contribution income and benefits expenditure shown in the Income and Expenditure Account of that Branch bears to the sum of the contribution income and benefits expenditure of the Fund as a whole.

c) Other Expenditure:

All other expenditure of the Board which is not attributable to any specific branch shall be distributed between the benefits branches in equal shares.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

14 DISTRIBUTION OF INCOME AND EXPENDITURE (cont'd)

Social Security Act, 1977, Section 42

Temporary Insufficient of Fund

- i) Any temporary insufficiency in the Fund to meet the liabilities of the Fund under this Act shall be met from money provided by the Legislature.
- ii) Any moneys provided by the Legislature under subsection (1) shall be repaid by the Fund by payment out of the Fund into the Consolidation Fund as soon as may be practicable.

15 SUNDRY CREDITORS AND ACCRUALS

	<u>2018</u>	<u>2017</u>
Sundry Payables	4,958,972	5,412,575
Accruals	644,905	843,727
Provisions	<u>498,521</u>	<u>501,201</u>
TOTAL (Page 3)	<u>\$6,102,398</u>	<u>\$6,757,503</u>

16 CONTRIBUTIONS AND FINES RECEIVABLE

At 31 December 2018, contributions and fines due from employers amounted to \$75,163,946 (2017 = \$63,450,473). Details are set out hereunder:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Contributions due by Employers	16,261,011	11,425,298
Fines due by Employers	<u>58,902,935</u>	<u>52,025,175</u>
TOTAL DUE TO THE BOARD	<u>\$75,163,946</u>	<u>\$63,450,473</u>

These amounts are stated for memorandum purposes only and are not included in these Financial Statements.

17 CAPITAL COMMITMENT

At December 31, 2018, the Social Security Board of Directors approved capital expenditure for the ensuing year in the amount of \$2 million (2017 = \$1.7 million).

18 RELATED PARTY TRANSACTIONS

Section 4 subsection 3 of the Social Security Act, 1977 indicates that the members of the Board shall be appointed by the Minister in the Government of St. Kitts-Nevis with responsibility for Social Security. The Government of St. Kitts and Nevis has majority shareholding interest in St. Kitts-Nevis Anguilla National Bank and appoints the Board Members of the following Statutory Corporations:

National Housing Corporation
Development Bank of St. Kitts and Nevis

The above Corporations and Companies along with the Federal Government of St. Kitts and Nevis are therefore considered to be related parties of the Social Security Board.

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(Continued)

18 RELATED PARTY TRANSACTIONS (cont'd)

Loans to Government and Statutory Corporations

The balances owed by some of the Statutory Corporations have been guaranteed by the Government of St. Kitts and Nevis. During 2018, an amount of \$138,151 was provided for in respect of rent receivable from Development Bank.

	<u>2018</u>	<u>2017</u> (Restated)
Balance at Beginning of Year	216,787,944	200,961,797
Loans advanced during the Year	12,000,000	18,000,000
Loan repayment received	(1,799,312)	(2,712,637)
Interest Income	6,972,847	6,316,892
Interest Received	<u>(6,525,711)</u>	<u>(5,778,108)</u>
Balance at End of Year	<u>\$227,435,768</u>	<u>\$216,787,944</u>

Fixed Deposits, Bank Accounts and Treasury Bills with Related Parties

	<u>2018</u>	<u>2017</u>
Balance at Beginning of Year	996,687,216	991,681,922
Net Advances	(64,002,535)	9,217,423
Interest Income	28,322,825	33,792,477
Interest Received	<u>(31,684,212)</u>	<u>(38,004,606)</u>
Balance at End of Year	<u>\$929,323,294</u>	<u>\$996,687,216</u>

Amount Owing By Directors

	<u>2018</u>	<u>2017</u> (Restated)
Balance at Beginning of Year	40,187	-
Loans Advanced during the year	61,000	48,000
Loan Repayment Received	(35,726)	(7,843)
Interest Income	3,539	1,771
Interest Received	<u>(3,519)</u>	<u>(1,741)</u>
Balance at End of Year	<u>\$65,481</u>	<u>\$40,187</u>

Key Management Compensation

The salaries and benefits paid to key management personnel of the Board during the year amounted to \$741,374 (2017 = \$939,652).

19 FINANCIAL INSTRUMENTS

a) Market Risk:

Market risk is the risk that a financial instrument will fluctuate as a result of changes in market prices. The Board is mainly exposed to market risk with respect to its investments in quoted equities. The Board's policies and procedures in relation to the management of all aspects of market risk is consistent with that of prior year. Market risk comprises the following:

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

a) Market Risk (cont'd)

(i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate. Substantially all the Board's transactions and assets and liabilities are denominated in Eastern Caribbean Dollars or United States Dollars. The exchange rate of the Eastern Caribbean dollar to the United States dollar has been formally pegged at EC \$2.70 = US \$1.00 since July 1976. Therefore, the Board has no significant exposure to currency risk.

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Board is primarily exposed to interest rate risk with respect to its fixed rate government debentures, securities and bonds. To manage interest rate risk, the Board negotiates the best rates possible.

(iii) Price risk:

The Board is exposed to equity securities price risk because of equity instruments held. The Board's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange and its exposure to equity securities price risk is not material because the total of these securities is insignificant based on the overall portfolio and there is limited volatility in this market. The Board's investment in overseas equities are also quoted but is considered immaterial in relation to the overall portfolio.

b) Fair Value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying amounts of the following financial assets and liabilities approximate their fair value: cash and bank balances, accrued interest receivable, accounts receivable, investments, accounts payable and sundry creditors.

Fair Value measurements hierarchy for assets at December 31, 2018:

	<u>Date of Valuation</u>	<u>Total</u>	<u>Quoted prices in Active Markets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets at fair value:					
Investment properties	31 December 2018	163,149,983	-	163,149,983	-
Available-for-sale financial assets:					
Quoted equity shares	31 December 2018	74,336,754	74,336,754	-	-
Quoted debt securities					
Corporate bonds	31 December 2018	8,472,422	8,472,422	-	-
Lands and buildings	31 December 2018	13,735,441	-	13,735,441	-

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

b) Fair Value: (cont'd)

Fair value measurement hierarchy for assets at 31 December 2017:

	<u>Date of</u> <u>Valuation</u>	<u>Total</u>	<u>Quoted prices</u> <u>in Active</u> <u>Markets</u> <u>(Level 1)</u>	<u>Significant</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u> <u>(Level 3)</u>
Assets at fair value:					
Investment properties	31 December 2017	137,323,304	-	137,323,304	-
Available-for-sale financial assets:					
Quoted equity shares	31 December 2017	76,568,067	76,568,067	-	-
Quoted debt securities					
Corporate bonds	31 December 2017	3,063,288	3,063,288	-	-
Lands and buildings	31 December 2017	14,054,556	-	14,054,556	-

Unquoted debt securities, held-to-maturity investments and loans receivable

Unquoted debt securities, held-to-maturity investments and loans receivable are carried at cost less provision for diminution in value. In the opinion of the Board, the carrying amounts of these investments approximate fair values.

Fair value of the Board's non-financial assets

The carrying value of the Board's Investment properties and land and buildings are stated at fair value. Fair value of these assets approximate the stated carrying values based on the appraisal done by the professional evaluators and the Board of Directors in consultation with the Investment Committee.

As stated in Note 9, the evaluator adopted a market based approach which involved the use of observable market data concerning the selling prices or the rental income for similar properties and incorporated adjustments for factors specific to the properties in question including location, current condition and use and the square footage. The valuation processes and the fair value changes were reviewed by the Board of Directors who had decided to adopt these values as at December 31, 2015. The use of observable market data resulted in the movement of the investment properties and Lands and Buildings from level 3 to level 2 during the year ended 31 December 2015.

c) Liquidity Risk:

Liquidity risk is the risk that the Board is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to meet statutory monthly pension payments.

In order to manage liquidity risk, Management seeks to maintain sufficient levels on cash and cash equivalents to finance its operations and ongoing projects through:

- i) Regular monitoring of the Board's liquidity position to ensure that requirements can be met including replenishment of funds;
- ii) Maintenance of a portfolio of marketable assets that can be easily liquidated as protection against unforeseen liquidity problems;

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19 FINANCIAL INSTRUMENTS (cont'd)

c) Liquidity Risk: (cont'd)

iii) Monitoring the liquidity ratios.

The Board's policies and procedures in managing liquidity risk is consistent with that of prior year.

The Following table summarizes the maturity profile of the Board's financial assets and liabilities analyzed into groupings based on the remaining periods from the Statement of Financial Position date to contractual maturity dates.

Assets:

Year Ended 31 December 2018:

	Due within <u>1 Year</u>	<u>>1 Yr to 5 Yrs</u>	<u>>5 Years</u>	<u>Total</u>
Cash at Bank and in Hand	15,851,582	-	-	15,851,582
Accrued Interest Receivable	24,352,368	-	-	24,352,368
Accounts Receivable and Prepaid Expenses	51,906,205	-	-	51,906,205
Investment Securities	<u>100,674,008</u>	<u>863,681,389</u>	<u>573,099,750</u>	<u>1,537,455,147</u>
Total Assets	<u>192,784,163</u>	<u>863,681,389</u>	<u>573,099,750</u>	<u>1,629,565,302</u>

Liabilities:

Year Ended 31 December 2018:

Accounts Payable	1,121,391	-	-	1,121,391
Other Payables	<u>6,102,398</u>	-	-	<u>6,102,398</u>
Total Liabilities	<u>7,223,789</u>	-	-	<u>7,223,789</u>
Net Liquidity Gap	<u>\$185,560,374</u>	<u>\$863,681,389</u>	<u>\$573,099,750</u>	<u>\$1,622,341,513</u>

Assets:

Year Ended 31 December 2017:

	Due within <u>1 Year</u>	<u>>1 Yr to 5 Yrs</u>	<u>>5 Years</u>	<u>Total</u>
Cash at Bank and in Hand	23,644,044	-	-	23,644,044
Accrued Interest Receivable	21,426,855	-	-	21,426,855
Accounts Receivable and Prepaid Expenses	28,597,286	-	-	28,597,286
Investment Securities	-	<u>1,080,931,796</u>	<u>359,255,406</u>	<u>1,440,187,202</u>
Total Assets	<u>73,668,185</u>	<u>1,080,931,796</u>	<u>359,255,406</u>	<u>1,513,855,387</u>

Liabilities:

Year Ended 31 December 2017:

Accounts Payable	864,359	-	-	864,359
Other Payables	<u>6,757,503</u>	-	-	<u>6,757,503</u>
Total Liabilities	<u>7,621,862</u>	-	-	<u>7,621,862</u>
Net Liquidity Gap	<u>\$66,046,323</u>	<u>\$1,080,931,796</u>	<u>\$359,255,406</u>	<u>\$1,506,233,525</u>

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Board is mainly exposed to credit risk with respect to its mortgage portfolio. The Board granted mortgages based on evaluations of the mortgagors' financial situation, and continually monitors the exposure of potential losses from mortgages. Management believes that the provision at December 31, 2018 is adequate.

Credit risk management

The following sections discuss the Board's credit risk management policies. The measurement of ECL under IFRS 9 uses the information and approaches that the Board uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9 measurement purposes. This is discussed separately in note 19 (d) (Page 60) on sensitivity analysis.

Credit risk in respect of cash balances and deposits with banks are managed through diversification of bank deposits and banking with reputable banks.

The Board monitors the credit quality of borrowers and investees by reviewing their financial reports. It is the policy of the Board to deal with credit worthy counterparties.

Loans and Advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Board measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 which are further outlined later in this note.

Credit Risk Grading

The Board uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model.

In addition, the models enable expert judgement from management to be fed into the final internal rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Board's rating scale and mapping of external ratings are set out below:

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Credit Risk Grading (cont'd)

	Moody's	RATING CODE	CATEGORY
Category 1 Investment Grade	Aaa	1	CATEGORY 1
	Aa1	2	CATEGORY 1
	Aa2	3	CATEGORY 1
	Aa3	4	CATEGORY 1
	A1	5	CATEGORY 1
	A2	6	CATEGORY 1
	A3	7	CATEGORY 1
	Baa1	8	CATEGORY 1
	Baa2	9	CATEGORY 1
	Baa3	10	CATEGORY 1
Category 2 Non Investment Grade	Ba1	11	CATEGORY 2
	Ba2	12	CATEGORY 2
Category 3 Medium Risk	Ba3	13	CATEGORY 2
	B1	14	CATEGORY 3
	B2	15	CATEGORY 3
Category 4 High Risk	B3	16	CATEGORY 3
	Caa1	17	CATEGORY 4
	Caa2	18	CATEGORY 4
	Caa3	19	CATEGORY 4
	Ca	20	CATEGORY 4
		21	CATEGORY 4

The PDs from Moodys are issued by rating category. Therefore, the instrument's rating is essential to the calculation.

As most of the instruments are investment grade, their ratings were available on the Moodys website.

However, St Kitts and St Lucia are not rated by international agencies and thus a surrogate rating had to be derived for the model. In arriving at this, the Board considered relationships between three macroeconomic variables (GDP, Debt/GDP and Inflation) and bond ratings for similar territories in the region and derived a rating through a combined process of regression and interpolation.

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(Expressed in Eastern Caribbean Dollars)

(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Board.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired (see below).
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3' (see note 2 (f)(ii)) (Page 23).
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis (see note 2 (f) (ii) & 19 (d) (Page 60)).
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage	Type	Impact on P&L
Stage 1	Initial recognition (Performing assets)	<ul style="list-style-type: none"> • 12-month expected credit losses • Interest on gross carrying amount
Stage 2	Assets with significant increase in credit risk (SICR) since initial recognition (Underperforming assets)	<ul style="list-style-type: none"> • Lifetime expected credit losses • Interest on gross carrying amount
Stage 3	Credit-impaired assets (Non performing assets)	<ul style="list-style-type: none"> • Lifetime expected credit losses • Interest on net carrying amount (i.e. after provisioning)

Staging Assumptions

At each statement of financial position date, the Board is required to determine whether there is a SICR for each instrument by comparing the relative ratings of the issuers at origination and as of the balance sheet date.

For this purpose, the Board examined the historical ratings on Moodys at or near the purchase date and compared it to the ratings at the balance sheet date and focused on whether downgrades (if any) represented a SICR.

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Staging Assumptions (cont'd)

Any movement (up or down) within the Investment Grade category was considered as not indicative of SICR. All other movements of two or more notches down were considered SICR.

The study concluded that there were no instruments with SICR.

For unrated instruments (St Kitts and St Lucia), the Board examined whether there was a growth or decline in GDP over the period 2009 to 2018 (the historical data period used for the forward-looking assessment).

The results show an overall increase in GDP. Therefore, it assumed that there was no SICR over the period.

	<u>2009 Value</u>	<u>2008 Value</u>	<u>Growth or Decline</u>
Saint Kitts and Nevis	(3.40)	4.60	8.00
Saint Lucia	(1.50)	0.90	2.40

Credit Risk Exposure**Maximum exposure to credit risk – Financial instruments subject to impairment**

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of the financial assets below also represents the Board's maximum exposure to credit risk on these assets.

	- Adoption of IFRS 9 -			December 31 2018	December 31 2017
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>	<u>Total</u>
Staff Loans	5,354,151	670,562	632,619	6,657,332	10,659,402
Expected Credit Loss Rate	<u>0.70%</u>	<u>1.20%</u>	<u>100%</u>	<u>10.20%</u>	<u>4.70%</u>
Loans to Government and Statutory Bodies	242,149,558	-	17,538,069	259,687,627	229,052,498
Expected Credit Loss Rate	<u>0.002%</u>	<u>0.00%</u>	<u>0.03%</u>	<u>0.00%</u>	<u>0.04%</u>
Notes and Bonds	93,136,881	-	-	93,136,881	89,560,913
Expected Credit Loss Rate	<u>0.05%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.05%</u>	<u>0.05%</u>
Total	<u>\$340,640,590</u>	<u>\$670,562</u>	<u>\$18,170,688</u>	<u>\$359,481,840</u>	<u>\$329,272,813</u>

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Collateral and Other Credit Enhancements

The Board generally employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Board has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. A valuation of the collateral obtained is carried out as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for the loans and advances are:

- Mortgages over residential properties;
- Bills of sale and assignment of collateral such as motor vehicles;
- Charges over financial instruments such as liens on fixed and other deposits and Staff Supplemental Benefit Pension.

Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed and government-guaranteed securities.

There have been no significant changes in obtaining collateral and in the overall quality of the collateral held by the Board during the reporting period.

The Board monitors collateral held for financial assets considered to be credit-impaired as it becomes likely that the Board will take possession of the collateral to mitigate credit losses. Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

	<u>Gross Exposure</u>	<u>Impairment Allowances</u>	<u>Carrying Amount</u>	<u>Fair Value of Collateral Held</u>
	\$	\$	\$	\$
Credit Impaired Assets				
Loans to Staff	632,619	(632,619)	-	46,878
Loans to Government and Statutory Bodies:				
Mortgages	27,536,574	(44,486)	27,492,088	21,885,065
Land	5,569,782	(8,998)	5,560,784	5,567,342
Other	<u>214,070,559</u>	<u>(8,544,182)</u>	<u>205,526,377</u>	-
	<u>\$247,809,534</u>	<u>\$(9,230,285)</u>	<u>\$238,579,249</u>	<u>\$27,499,285</u>

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Write off policy

The Board writes off financial assets in whole or in part when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity (ii) where the Board's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Board may write off financial assets that are still subject to enforcement activity. However, there were no assets written off during the year under review.

The Board still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modifications of financial assets

The Board sometimes modifies the terms of loans with a view to maximizing recovery. Such restructuring activities which are minimal include extended payment term arrangements. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payments will most likely continue.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Board monitors the subsequent performance of modified assets. The Board may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12 - month ECL). This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

The Board continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

Significant increase in credit risk (SICR)

The Board assesses at each statement of financial position date whether there is a SICR for each instrument. A financial instrument is said to have experienced a significant increase in credit risk when one or more of the following quantitative or backstop criteria have been met. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not deemed to be credit impaired.

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Significant increase in credit risk (SICR) (cont'd)

Quantitative criteria:

The remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold per table below.

Moody's rating	S&P Equivalent	Corporate Range		Sovereign Range	
		From	To	From	To
Aaa	AAA	0.0000%	0.0000%	0.0000%	0.0000%
Aa1	AA+	0.0000%	0.0000%	0.0540%	0.1111%
Aa2	AA	0.0000%	0.2309%	0.0540%	0.1111%
Aa3	AA-	0.0450%	0.2569%	0.0540%	0.1111%
A1	A+	0.0680%	0.1692%	0.0340%	0.4467%
A2	A	0.0460%	0.3859%	0.0340%	0.4467%
A3	A-	0.0530%	0.4439%	0.0340%	0.4467%
Baa1	BBB+	0.1220%	0.1209%	0.1875%	0.2949%
Baa2	BBB	0.1610%	0.3787%	0.1875%	0.2949%
Baa3	BBB-	0.2370%	0.4587%	0.1875%	0.2949%
Ba1	BB+	0.4310%	0.9098%	0.5060%	0.9240%
Ba2	BB	0.7350%	0.0730%	0.5060%	0.9240%
Ba3	BB-	1.3580%	0.3526%	0.5060%	0.9240%
B1	B+	1.9910%	0.8991%	2.6190%	1.3789%
B2	B	3.0030%	0.4665%	2.6190%	1.3789%
B3	B-	4.8970%	0.1803%	2.6190%	1.3789%
Caa-1	CCC+	7.9030%	0.0000%	11.7090%	1.4787%
Caa-2	CCC	7.9030%	0.0000%	11.7090%	1.4787%
Caa-3	CCC-	7.9030%	0.0000%	11.7090%	1.4787%
Ca	CC	30.6740%	0.0000%	11.7090%	1.4787%
Ca	C	30.6740%	0.0000%	11.7090%	1.4787%

Qualitative Criteria:

If the borrower meets one or more of the following criteria:

- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last twelve months
- Significant increase in credit spread
- Significant adverse changes in business, financial and economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of a significant increase in credit risk incorporates forward looking information and is performed on a quarterly basis for all financial instruments held by the Board. A watchlist is used to monitor credit risk and this assessment is performed on a periodic basis. The criteria used in the assessment are monitored by management and reviewed periodically for appropriateness.

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Board has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

Definition of default and credit impaired assets

The Board defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties.
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Board and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Board's expected loss calculations.

The Board has adopted the 90 days past due presumption under IFRS 9 for the loans portfolio. This will be monitored and reviewed on an annual basis to ensure it remains appropriate.

An instrument is therefore considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months.

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12m) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired (See Note above). Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above) either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For bond instruments, PDs are calculated using the cumulative number of defaults by instrument rating over the total number of bonds in issue. These are further adjusted to arrive at independent/unconditional probabilities. Forward looking PDs were determined using three independent macroeconomic variables which were weighted using a normal distribution curve. Linear regression was therefore used to predict values to arrive at a forward multiple (See Note 19 (d) (Page 61)).
- EAD is based on the amounts the Board expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Board includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur. For each bond, EADs are the future monthly balances on the bond until maturity which essentially remains the same for non-amortising bonds.
- Loss Given Default (LGD) represents the Board’s expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12 months LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not repaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying the maturity profiles. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies.

For amortising loans and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default.

For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values and recovery costs observed.

For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

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19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (cont'd)

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. See below for explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. - are monitored and reviewed on a regular basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

If the financial instrument is credit impaired, the financial instrument is moved to Stage 3. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of the lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis.

Forward-looking information incorporated in ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Board has performed historical analysis so that consideration was given to different forward-looking macroeconomic scenarios. This is because there may be nonlinear relationships between different forward-looking scenarios and their associated credit losses that materially impact ECL. Judgment is required to determine the appropriate number of scenarios that will capture material non-linearities. The relationship between macroeconomic factors and default rates was therefore assessed.

For this assessment, the Board used 5 years of historical data in each scenario, identified three key macroeconomic types of data (GDP, Debt/GDP and inflation) and assessed the best predictor of default rates. Unemployment data was not available for St Kitts-Nevis.

Linear regression was applied to establish the relationship and to predict future data (e.g. the impact of an x% change on predicted GDP or historical default data). The baseline predictions of macroeconomic data were based on information from the IMF. In estimating the future economic data, a probability weighted approach based on two scenarios was used i.e. IMF baseline and Trend alternative case and a normal distribution curve was used to establish the probability weighted approach. This was more efficient in comparison to compiling histograms and thereafter deriving actual cumulative distributions. In most cases, the IMF baseline predictions received higher weightings.

The final multiple was based on the weighted average of R squared results. Overall, the R squared values were fairly low which suggests that there is limited relationship between macroeconomic data and default data. Having regard for the multiple scenarios used to overcome the limitations, the Board is satisfied that the results are appropriate.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Board considers these forecasts to represent its best estimate of the possible outcomes.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)

(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

d) Credit Risk: Credit Risk Management (cont'd)

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Staff Loan portfolios

- (i) House price index, given the significant impact it has on mortgage collateral valuations; and
- (ii) Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

External Loan

- (i) GDP, given the significant impact on companies' performance and collateral valuations; and
- (ii) Interest rate, given its impact on companies' likelihood of default.

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Board's economic variable assumptions.

	AVERAGE	RANK	2018
GDP			
Barbados	-0.52	7	-0.6
Bahamas	0.14	6	1.6
Dominican Republic	5.23	1	7
Belize	2.09	2	4.2
Jamaica	0.16	5	1.6
Trinidad and Tobago	-0.75	8	0.3
Saint Kitts and Nevis	1.94	3	4.6
Saint Lucia	0.88	4	0.9
DEBT/GDP			
Barbados	129.95	8	125.7
Bahamas	44.69	3	63.3
Dominican Republic	43.77	2	50.5
Belize	90.72	5	63.5
Jamaica	127.82	7	94.4
Trinidad and Tobago	29.33	1	45.1
Saint Kitts and Nevis	98.42	6	60.5
Saint Lucia	63.66	4	64.3
INFLATION			
Barbados	3.54	5	3.7
Bahamas	1.53	4	2.2
Dominican Republic	3.7	6	3.6
Belize	1.03	2	0.8
Jamaica	6.84	8	3.7
Trinidad and Tobago	5.35	7	1
Saint Kitts and Nevis	0.81	1	-0.2
Saint Lucia	1.31	3	2

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(Continued)

19 FINANCIAL INSTRUMENTS (cont'd)

c) Credit Risk: Credit Risk Management (cont'd):

Sensitivity Analysis (cont'd)

The smaller the ranking number, the better the economy. The smaller the rating code, the higher the bond rating. Therefore, the line would be upward sloping to indicate a positive correlation between a good performing economy and its rating.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Board will consider benchmarking internal/external supplementary data to use for modelling purposes. At the year end instruments were not grouped for measurement of losses on a collective basis.

20 CONTINGENT LIABILITY

Civil Claim No SKBHCV2015/0233 is claim for Specific Performance where the Claimant wants the Social Security Board to conclude a Sale and Purchase Agreement which has been rescinded by the Board. This matter has not been settled to date.

Claim No. SKBHCV/233 against the Social Security Board for loss and damage in connection with an Agreement for sale of 116.45 acres remains unsettled. A provision of \$1,881,044 for the impairment was made in 2014 financial statements; additional expenses related to the transaction were included in 2015 bringing the full provision at 31 December, 2015 to \$1,914,444.

21 INCOME TAX EXEMPTION

The Social Security Board is exempt from income tax in accordance with Income Tax Ordinance No.17 of 1966 section 5 (i) (p) and 5 (i) (q).

22 RESERVE FUND

The following describes the nature and purpose of each reserve within the fund:

<u>Reserve</u>	<u>Description and Purpose:</u>
Long term benefits fund	Invalidity, Age, Survivors and Assistance Benefits to be paid out in accordance with Social Security Act, 1977;
Short Term Benefits Fund	Sickness, Maternity and Funeral Grants to be paid out in accordance with Social Security Act 1977;
Injury Benefits Fund	Injury, Disablement and Death Benefits to be paid out in accordance with Social Security Act, 1977;
National Provident Fund -Members Accounts	Surplus and transactions under National Provident Fund;

ST KITTS-NEVIS SOCIAL SECURITY BOARD

NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Eastern Caribbean Dollars)
(Continued)

22 RESERVE FUND (cont'd)

**National Provident Fund
-Reserve Account**

Under the National Provident Fund Act 1968, this represents fines and penalties collected, contributions by employers or workers which may not be allocated to individual accounts and any other monies authorized to be paid into the fund;

Revaluation Reserve

Gains and Losses on revaluation of the Board's freehold properties, and realized gains/losses on available for sale investments

**Staff Supplemental
Benefit Reserve**

Staff supplemental benefits to be paid to the Board's staff members;

23 SUBSEQUENT EVENTS

a) Subsequent to the year end, the Board made the following decisions:

1. **St Christopher Air and Sea Ports Authority (SCASPA)**
Loan of \$81,000,000 for 20 years at 4.5% per annum

On 15 November 2019, the Social Security Board approved a loan of \$81,000,000 for a period of 20 years at an interest rate of 4.5% per annum. The purpose of this loan is to resurface the landing strips at the Robert Llewelyn Bradshaw International Airport.

2. **Development Bank Loan \$30,000,000**

As part of a loan consolidation package the Board approved an additional loan of \$30,000,000 to the Development Bank on 1 July 2018. At year end, no amount was drawn down on this additional loan. The loan is for a period of 25 years at an interest rate of 3.5% per annum.

3. **Nevis Electricity Company Limited (NEVLEC)**

On 4 December 2018, the Social Security Board approved a loan of approximately \$7.5 million to NEVLEC for the acquisition of critical equipment and to make significant upgrades to feeders. The loan is repayable over 10 years at an interest rate of 4% per annum.

4. **Nevis Island Administration (NIA) Loan \$20,000,000**

On 16 April 2019, the Social Security Board approved a loan of \$20 million for a period of 20 years at an interest rate of 3.5% per annum on a reducing balance. The purpose of this Loan is for funding of development projects.

b) The Board concluded the purchase of Fountain Estate and Dale Estate. This event did not ultimately affect the results presented in these Financial Statements.

c) **Covid -19 - Impact of Valuations**

In addition to the above, the Corona Virus pandemic has created a global threat to the continuity of businesses and the valuation of the Board's assets. The Board is unable to determine the likely impact of this pandemic at this time.